

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Ortonville	County Oakland
Fiscal Year End 6-30-06	Opinion Date 10-19-06	Date Audit Report Submitted to State DECEMBER 20, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

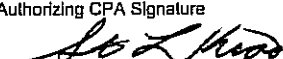
2006

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Lewis & Knopf, PC		Telephone Number 810-238-4617	
Street Address 5206 Gateway Centre - Ste 100		City Flint	State MI
		Zip 48532	
Authorizing CPA Signature 		Printed Name Stephen L. Kidd, CPA	
		License Number 1101011609	

VILLAGE OF ORTONVILLE

ORTONVILLE, MICHIGAN

AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 2006

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*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

October 19, 2006

## INDEPENDENT AUDITOR'S REPORT

To the Village Council  
of the Village of Ortonville

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Ortonville, as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Ortonville's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Ortonville as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2006 on our consideration of the Village of Ortonville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages II – IX, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Ortonville's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lewis & Knopf PC*

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF ORTONVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

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As management of the Village of Ortonville, we offer readers of the Village of Ortonville's financial statements this narrative overview and analysis of the financial activities of the Village of Ortonville for the year ended June 30, 2006.

**FINANCIAL HIGHLIGHTS**

- The net assets of the Village, at the close of the most recent year were \$2,425,022.
- The Village's total net assets increased by \$130,765.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Village of Ortonville's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary and additional information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements:**

The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reports as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. delinquent personal property taxes).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements can be found on pages 1 and 2 of this report.

**Fund Financial Statements:**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into one category of governmental funds.

**Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

VILLAGE OF ORTONVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

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**Fund Financial Statements:** (Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, Downtown Development Authority fund, major street fund and minor street fund all of which are considered to be major funds.

The Village adopts an annual appropriated budget for its general fund, and special revenue funds. Budgetary comparison statements have been provided for these funds in the required supplementary information.

The basic governmental funds financial statements can be found on pages 3 through 4 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 9 through 18 of this report.

Other Information

The other supplementary information can be found on pages 18 through 26 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the Village, assets exceed liabilities by \$2,425,022 at the close of the most recent fiscal year.

Of the Village's net assets, 76% reflects its investment in capital assets (e.g., land, buildings, leasehold improvements, furniture and equipment, infrastructure and vehicles), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

VILLAGE OF ORTONVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

**SUMMARY OF NET ASSETS:**

The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Current Assets	\$607,949	\$508,992
Noncurrent Assets	<u>2,052,007</u>	<u>2,067,842</u>
Total Assets	\$2,659,956	\$2,576,834
Current Liabilities	71,272	85,582
Noncurrent Liabilities	<u>163,662</u>	<u>196,995</u>
Total Liabilities	\$234,934	\$282,577
Net Assets		
Invested in Capital Assets – Net of Related Debt	1,855,012	1,842,848
Restricted - Non-Expendable Endowment	15,000	15,000
Unrestricted	<u>555,010</u>	<u>436,409</u>
<b><u>TOTAL NET ASSETS</u></b>	<b><u>\$2,425,022</u></b>	<b><u>\$2,294,257</u></b>

**RESULTS OF OPERATIONS:**

For the fiscal years ended June 30, 2006 and 2005, the Village's results of operations were:

	<u>2006</u>	<u>2005</u>
Revenues:		
Program Revenues:		
Charges for Services	\$34,162	\$35,199
General Revenues:		
Property Taxes	378,345	354,738
State Sources	217,597	219,758
Investment Earnings	18,849	8,532
Other	<u>18,431</u>	<u>11,569</u>
Total Revenues	\$667,384	\$629,796
Functions/Program Expenses:		
Legislative	24,974	24,146
Executive	3,037	2,435
Manager	52,360	61,009
Financial Administration	80,787	80,385
General Government	225,551	220,115
Protective Inspection	4,025	3,750
Highways, Streets and Bridges	93,820	186,462
Recreation	162	3,841
Planning Commission	860	546
Other Functions	37,868	51,532
Interest on Long-Term Obligations	<u>13,175</u>	<u>14,323</u>
Total Expenses	\$536,619	\$648,544
<b><u>INCREASE (DECREASE) IN NET ASSETS</u></b>	<b><u>\$130,765</u></b>	<b><u>(\$18,748)</u></b>

VILLAGE OF ORTONVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

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Analysis of Financial Position:

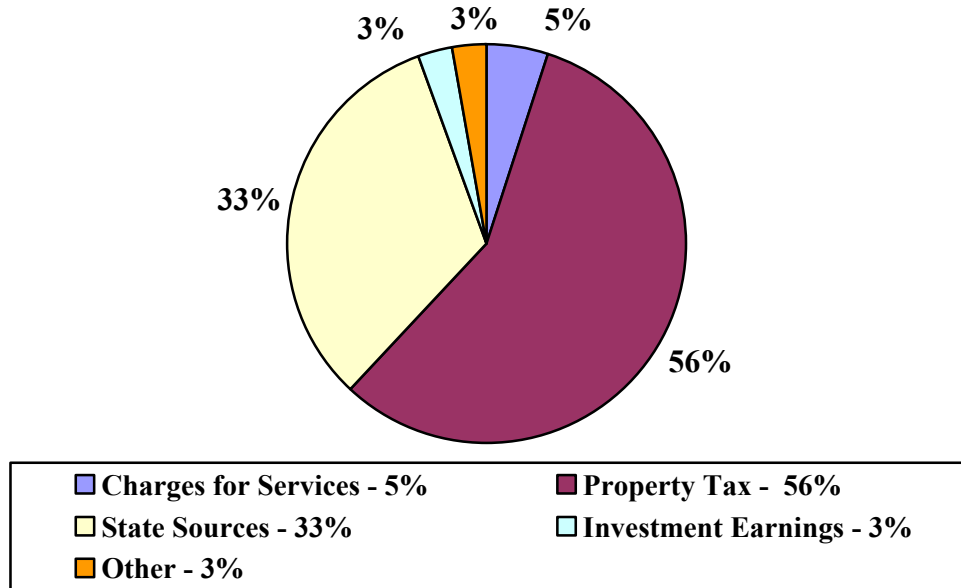
During the year ended June 30, 2006, the Village's total net assets increased by \$130,765 to a total of \$2,425,022. The largest portion of the net assets are the Village's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$12,164 during the year due to purchases of new capital assets exceeding depreciation and principal payments on related debt. The Village's unrestricted net assets increased by \$118,601 during the year and the restricted portion of the net assets remained unchanged.

Analysis of Results of Operations

The Village's overall revenues exceeded its expenses by \$130,765 for the year. Revenues increased by \$37,588 from last year, primarily from due to increases in property taxes and investment earnings. Expenses decreased by \$111,925 from last year due to decreases in engineering and construction costs.

**Revenues by Source – Governmental Activities**

**Total Revenues = \$667,384**



VILLAGE OF ORTONVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

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**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS**

Analysis of Financial Position

The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The Village's general fund is the chief operating fund of the Village. Unreserved fund balance for the general fund increased by \$34,987 during the year, with the increase appearing in cash and receivables. Overall revenues for the year increased by \$24,276. This increase was primarily due to increases in property taxes, reimbursements and investment earnings. Expenditures and other financing uses decreased by \$24,786 primarily due to decreases in wages and fringe benefits and construction.

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. Major and minor street funds account for the resources of state gas and weight revenues that are restricted for use on streets. Downtown Development Authority fund accounts for the resources of taxes that are restricted for use on downtown development activities.

Downtown Development Authority

Unreserved fund balance, for the Downtown Development Authority, increased by \$1,118 during the year, with the increase appearing in cash. Revenues and other financing sources for the year increased by \$12,824 primarily due to increases in property taxes. Expenditures and other financing uses increased by \$23,754 primarily due to increases in salary and repair costs.

Major Street

Unreserved fund balance for the major street fund increased by \$81,152 during the year with the increase appearing in cash. Revenues and other financing sources for the year increased by \$47,431 primarily due to transfer from general fund. Expenditures and other financing uses decreased by \$124,603 due primarily to decreases in construction.

VILLAGE OF ORTONVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital Assets*

At the end of 2006, the Village had \$2,940,267 invested in land, buildings, furniture and equipment, leasehold improvements, vehicles and infrastructure activity related to streets and storm sewer, for its governmental activities. Of this amount \$36,979 was construction in progress. \$888,260 in depreciation has been taken over the years. We currently have net book value of \$2,052,007. Total acquisitions for the year were \$90,437 and depreciation expense was \$106,272.

CAPITAL ASSETS AT YEAR END  
(NET OF DEPRECIATION)

	<u>2006</u>	<u>2005</u>
Construction in Progress	\$36,979	\$84,443
Land	706,540	706,540
Buildings	827,669	851,318
Leasehold Improvements	341,295	251,499
Furniture and Equipment	5,794	13,028
Vehicles	11,000	30,400
Streets and Storm Sewer Infrastructure	<u>122,730</u>	<u>130,614</u>
 <u>TOTAL</u>	 <u>\$2,052,007</u>	 <u>\$2,067,842</u>

Major capital asset events during the current fiscal year include the following:

- \* South street bridge infrastructure

*Debt, Principal Payments*

The Village made principal payments on bonded, long term debt obligations and contracts payable that reduced the amount of the Village's long-term liabilities as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>Governmental Activities:</u>				
Bonds Payable	\$200,000	\$0	\$20,000	\$180,000
Contracts Payable	<u>24,994</u>	<u>0</u>	<u>7,999</u>	<u>16,995</u>
 <u>Total Governmental Activities</u>	 <u>\$224,994</u>	 <u>\$0</u>	 <u>\$27,999</u>	 <u>\$196,995</u>

VILLAGE OF ORTONVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

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**GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**

**GENERAL FUND BUDGET VS. ACTUAL**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final <u>Budget %</u>	Variance Actual & Final Budget %
Revenues	\$507,872	\$507,872	\$483,304	0.00	4.84
Expenditures	547,007	547,007	448,317	0.00	18.04
<b><u>TOTAL</u></b>	<b><u>(\$39,135)</u></b>	<b><u>(\$39,135)</u></b>	<b><u>\$34,987</u></b>		

**GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**

**Original vs. Final Budgets**

Revenues and Expenditures

There were no changes between original and final budgets.

**Actual Results vs. Final Budgets**

Revenues

Revenue estimates exceeded actual by \$24,568. \$12,080 of this amount was attributable to greater interest earned, as well as under estimated tax.

Expenditures

Actual expenses were \$98,690 under budget. The significant areas were in vacant employee positions, resulting in decreased wages and fringe benefits, and postponement of some maintenance projects.

VILLAGE OF ORTONVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

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**Economic Factors and Next Year's Budget and Rates**

Revenue sharing is the most significant budgetary concern at this time. Anticipated future decreases in state revenue sharing could have a substantial effect on operations for subsequent periods.

The Village of Ortonville's 2006/2007 adopted budget is as follows:

<u>REVENUE</u>	614,744
<u>EXPENDITURES</u>	<u>698,237</u>
<u>NET (UNDER) BUDGET</u>	<u><u>(\$83,493)</u></u>

**CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the Village's finances. If you have questions about this report or need additional information, contact the Business Office, Village of Ortonville.

VILLAGE OF ORTONVILLE  
STATEMENTS OF NET ASSETS  
AS OF JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$446,931
Accounts Receivable	98,903
Investments	62,115
Total Current Assets	<u>\$607,949</u>
<u>NON-CURRENT ASSETS</u>	
Land	706,540
Capital Assets	2,196,748
Construction in Progress	36,979
Less: Accumulated Depreciation	(888,260)
Total Non-current Assets	<u>\$2,052,007</u>
<u>TOTAL ASSETS</u>	<u>\$2,659,956</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	31,167
Due to Other Governmental Units	6,772
Current Portion of Long-Term Obligations	33,333
Total Current Liabilities	<u>\$71,272</u>
<u>NON-CURRENT LIABILITIES</u>	
Non-Current Portion of Long-Term Obligations	<u>163,662</u>
<u>TOTAL LIABILITIES</u>	<u>\$234,934</u>
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets - Net of Related Debt	1,855,012
Restricted - Non-Expendable Endowment	15,000
Unrestricted	555,010
<u>TOTAL NET ASSETS</u>	<u><u>\$2,425,022</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF ORTONVILLE  
STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenues</u>		<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue &amp; Change in Net Assets</u>
	<u>Expenses</u>	<u>Charges For Services</u>		
Governmental Activities:				
Legislative	\$24,974	\$0	\$0	(\$24,974)
Executive	3,037	0	0	(3,037)
Manager	52,360	0	0	(52,360)
Financial Administration	80,787	0	0	(80,787)
General Government	225,551	7,100	0	(218,451)
Protective Inspection	4,025	0	0	(4,025)
Highways, Streets and Bridges	93,820	27,062	0	(66,758)
Recreation	162	0	0	(162)
Planning Commission	860	0	0	(860)
Other Functions	37,868	0	0	(37,868)
Interest - Long-Term Obligations	13,175	0	0	(13,175)
<u>TOTALS</u>	<u>\$536,619</u>	<u>\$34,162</u>	<u>\$0</u>	<u>(\$502,457)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				378,345
State Sources				217,597
Investment Earnings				18,849
Miscellaneous				18,431
Total General Revenues and Transfers				<u>\$633,222</u>
Change in Net Assets				<u>\$130,765</u>
Net Assets - Beginning				<u>2,294,257</u>
<u>Net Assets - Ending</u>				<u>\$2,425,022</u>

See accompanying notes to the basic financial statements.

VILLAGE OF ORTONVILLE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2006

	General Fund	Downtown Development Authority	Major Street	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$259,659	\$135,378	\$232	\$51,662	\$446,931
Accounts Receivable	25,033	0	73,870	0	98,903
Investments	62,115	0	0	0	62,115
Due from Other Funds	48,160	0	0	7,822	55,982
<u>TOTAL ASSETS</u>	<u>\$394,967</u>	<u>\$135,378</u>	<u>\$74,102</u>	<u>\$59,484</u>	<u>\$663,931</u>
<u>LIABILITIES</u>					
Accounts Payable	\$19,066	\$11,128	\$973	\$0	\$31,167
Due to Other Governmental Units	6,772	0	0	0	6,772
Due to Other Funds	0	7,175	39,766	9,041	55,982
Total Liabilities	\$25,838	\$18,303	\$40,739	\$9,041	\$93,921
<u>FUND BALANCES</u>					
Reserved - Non-Expendable	15,000	0	0	0	15,000
Endowment					
Unreserved	354,129	117,075	33,363	50,443	555,010
Total Fund Balances	\$369,129	\$117,075	\$33,363	\$50,443	\$570,010
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$394,967</u>	<u>\$135,378</u>	<u>\$74,102</u>	<u>\$59,484</u>	<u>\$663,931</u>

See accompanying notes to the basic financial statements.

VILLAGE OF ORTONVILLE  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2006

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Total Governmental Fund Balances:		\$570,010
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$2,903,288 and the accumulated depreciation is \$888,260		2,015,028
Construction in Progress		36,979
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Contracts Payable	16,995	
Bonds Payable	<u>180,000</u>	
Total Long-Term Liabilities		<u>(196,995)</u>
<u>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</u>		<u>\$2,425,022</u>

VILLAGE OF ORTONVILLE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Downtown Development Authority	Major Street	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>					
Tax Collections	\$309,784	\$68,561	\$0	\$0	\$378,345
Licenses and Permits	5,400	0	0	0	5,400
State Sources	118,574	0	74,602	24,421	217,597
Other Sources	49,546	9,536	3,958	3,002	66,042
Total Revenues	<u>\$483,304</u>	<u>\$78,097</u>	<u>\$78,560</u>	<u>\$27,423</u>	<u>\$667,384</u>
<u>EXPENDITURES</u>					
Current					
Legislative	24,974	0	0	0	24,974
Executive	3,037	0	0	0	3,037
Manager	52,360	0	0	0	52,360
Financial Administration	80,787	0	0	0	80,787
General Government	171,513	43,734	0	0	215,247
Protective Inspection	4,025	0	0	0	4,025
Highways, Streets and Bridges	24,942	0	43,197	28,149	96,288
Recreation	162	0	0	0	162
Planning Commission	860	0	0	0	860
Other Functions	37,456	0	0	0	37,456
Debt Retirement	0	0	0	33,175	33,175
Total Expenditures	<u>\$400,116</u>	<u>\$43,734</u>	<u>\$43,197</u>	<u>\$61,324</u>	<u>\$548,371</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$83,188	\$34,363	\$35,363	(\$33,901)	\$119,013
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers to Other Governmental Units	(412)	0	0	0	(412)
Transfers to (from) Other Funds	(47,789)	(33,175)	45,789	35,175	0
Total Other Financing Sources (Uses)	<u>(\$48,201)</u>	<u>(\$33,175)</u>	<u>\$45,789</u>	<u>\$35,175</u>	<u>(\$412)</u>
Net Change in Fund Balance	\$34,987	\$1,188	\$81,152	\$1,274	\$118,601
<u>FUND BALANCE - BEGINNING</u>	<u>334,142</u>	<u>115,887</u>	<u>(47,789)</u>	<u>49,169</u>	<u>451,409</u>
<u>FUND BALANCE - ENDING</u>	<u>\$369,129</u>	<u>\$117,075</u>	<u>\$33,363</u>	<u>\$50,443</u>	<u>\$570,010</u>

See accompanying notes to the basic financial statements.

VILLAGE OF ORTONVILLE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

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Total net change in fund balances - governmental funds	\$118,601
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(52,814)
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Construction in Progress	36,979
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	<u>27,999</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>\$130,765</u></u>
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VILLAGE OF ORTONVILLE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
<u>REVENUES</u>				
Tax Collections	\$333,998	\$333,998	\$309,784	(\$24,214)
Licenses and Permits	4,800	4,800	5,400	600
State Sources	116,577	116,577	118,574	1,997
Other Sources	52,497	52,497	49,546	(2,951)
Total Revenues	\$507,872	\$507,872	\$483,304	(\$24,568)
<u>EXPENDITURES</u>				
Current				
Legislative	55,870	55,870	24,974	30,896
Executive	3,050	3,050	3,037	13
Manager	76,980	76,980	52,360	24,620
Financial Administration	80,155	80,155	80,787	(632)
General Government	237,202	237,202	171,513	65,689
Protective Inspection	5,665	5,665	4,025	1,640
Highways, Streets and Bridges	32,550	32,550	24,942	7,608
Recreation	7,000	7,000	162	6,838
Planning Commission	7,500	7,500	860	6,640
Other Functions	40,460	40,460	37,456	3,004
Total Expenditures	\$546,432	\$546,432	\$400,116	\$146,316
Excess (Deficiency) of Revenues	(\$38,560)	(\$38,560)	\$83,188	\$121,748
<u>OTHER FINANCING SOURCES (USES)</u>				
Net Change in Fund Balance	(\$39,135)	(\$39,135)	\$34,987	\$74,122
<u>FUND BALANCE - BEGINNING</u>			334,142	
<u>FUND BALANCE - ENDING</u>			\$369,129	

See accompanying notes to the basic financial statements.

VILLAGE OF ORTONVILLE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL  
SPECIAL REVENUE FUNDS - DOWNTOWN DEVELOPMENT AUTHORITY  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>REVENUES</u>				
Tax Collections	\$57,000	\$57,000	\$68,561	\$11,561
Other Sources	7,630	7,781	9,536	1,755
Total Revenues	<u>\$64,630</u>	<u>\$64,781</u>	<u>\$78,097</u>	<u>\$13,316</u>
<u>EXPENDITURES</u>				
Current				
General Government	77,150	74,916	43,734	31,182
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(\$12,520)</u>	<u>(\$10,135)</u>	<u>\$34,363</u>	<u>\$44,498</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>0</u>	<u>0</u>	<u>(33,175)</u>	<u>(33,175)</u>
Net Change in Fund Balance	<u>(\$12,520)</u>	<u>(\$10,135)</u>	<u>\$1,188</u>	<u>\$11,323</u>
<u>FUND BALANCE - BEGINNING</u>			<u>115,887</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$117,075</u>	

See accompanying notes to the basic financial statements.

VILLAGE OF ORTONVILLE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL  
SPECIAL REVENUE FUNDS - MAJOR STREET  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>REVENUES</u>				
State Sources	\$79,421	\$79,421	\$74,602	(\$4,819)
Other Sources	2,384	2,384	3,958	1,574
Total Revenues	<u>\$81,805</u>	<u>\$81,805</u>	<u>\$78,560</u>	<u>(\$3,245)</u>
<u>EXPENDITURES</u>				
Current				
Highways, Streets and Bridges	<u>151,571</u>	<u>151,571</u>	<u>43,197</u>	<u>108,374</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(\$69,766)</u>	<u>(\$69,766)</u>	<u>\$35,363</u>	<u>\$105,129</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(2,000)</u>	<u>(2,000)</u>	<u>45,789</u>	<u>47,789</u>
Net Change in Fund Balance	<u>(\$71,766)</u>	<u>(\$71,766)</u>	<u>\$81,152</u>	<u>\$152,918</u>
<u>FUND BALANCE - BEGINNING</u>			<u>(47,789)</u>	
<u>FUND BALANCE - ENDING</u>			<u><u>\$33,363</u></u>	

See accompanying notes to the basic financial statements.

VILLAGE OF ORTONVILLE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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1) REPORTING ENTITY

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. The Village of Ortonville's Village Council is the primary government, which has oversight responsibility and control over all activities related to sanitation, public improvements, planning and zoning, and general administrative services within the Village. The Village receives funding from local, state and federal government sources and must comply with the accompanying requirements of these funding sources. However, the Village is not included in any other governmental "reporting entity" as defined by GASB pronouncements since the Village Council is a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities. As such, the Village Council has decision making authority, the authority to levy taxes and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

This report does include the Downtown Development Authority, of which the Village of Ortonville has oversight responsibilities.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Village of Ortonville conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section provides an analysis of the Village’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the Village’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The Village’s basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Village’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

VILLAGE OF ORTONVILLE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the Village are grouped into the categories governmental and proprietary.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. This includes Major Street Fund, Local Street Fund and Downtown Development Fund.

Debt Retirement Fund - The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of principal and interest in connection with issuance of "Village of Ortonville 1994 Downtown Development Improvements Project Tax Increment Revenue Bonds".

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The proprietary fund also uses the accrual basis of accounting.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The Village reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Village receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

VILLAGE OF ORTONVILLE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) CASH AND CASH EQUIVALENTS

The Village considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. In accordance with the provisions of GASB 34 the Village has elected to capitalize the cost of government fund infrastructure assets after the implementation date of GASB 34. Prior acquisitions or construction costs of infrastructure assets will not be recorded.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land	N/A
Buildings and Improvements	20 – 50 Years
Furniture and Equipment	5 Years
Vehicles	5 Years
Streets and Storm Sewer Infrastructure	15 Years

F) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column of the statement of net assets.

G) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

H) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

VILLAGE OF ORTONVILLE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I) BUDGETS

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Two to three months prior to the beginning of the ensuing year, the Village Council reviews a proposed operating budget, which includes proposed revenues and expenditures.
- 2) Prior to the beginning of the ensuing year, the Village Council passes a general appropriations act reflecting formal budget approval in accordance with the Michigan Uniform Budget Act.
- 3) Budgets for all governmental fund type funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
- 4) Budgeted amounts in this report are as originally adopted or as amended by the Village Council. Amendments were not material in relation to the original appropriations, which were amended.

J) COMPENSATED ABSENCES

Under agreements with the Village, individual employees have a vested right to receive payments for unused sick leave under formulas and conditions specified in the agreements. As of June 30, 2006, substantially all of these benefits had been paid and are reflected in the financial statements.

K) RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2006, the Village incurred expenditures in budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the Village are at one bank in the name of Village of Ortonville. Michigan Compiled Laws (MCL), Section 129.91, authorizes a local unit to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bond securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

VILLAGE OF ORTONVILLE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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4) DEPOSITS AND INVESTMENTS (Continued)

The Village Council authorized the following as depositories for the year ended June 30, 2006: Oxford Bank, Bank One, MBIA Class, and Clarkston Brandon Community Credit Union. The Village's deposits are in accordance with statutory authority.

The Village's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Village had \$252,394 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Village believe that due to dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

Statutes authorized the Village to invest in the following:

- a) Direct bonds and obligations of the U.S. or agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States. This subdivision shall include securities issued or guaranteed by the Government National Mortgage Association.
- b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank or a savings and loan association which is a member of the Federal Deposit Insurance Corporation or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association or credit union is eligible to be a depository of surplus funds belonging to the State under sections five and six of Act 105 of Public Acts of 1855, as amended with banks, savings and loan associations or credit unions, which are insured with the applicable federal agency.
- c) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services and which matures not more than two hundred seventy days after the date of purchase.
- d) U.S. governmental or federal agency obligation repurchase agreements. Repurchase agreements shall be negotiated only with dealers or financial institutions with whom the Village has negotiated a Master Repurchase Agreement. Repurchase Agreements must be signed with the bank or dealer and must contain provisions similar to those outlined in the Public Security Associations; model Master Repurchase Agreement.
- e) Bankers' acceptances of U.S. banks.
- f) Mutual funds - investments, which are legal for direct investment by local units of government in Michigan and composed only of securities, which intend to maintain a net asset value of one dollar per share.
- g) As spelled out in Public Act 20 section 1 (1) h, as it refers to interlocal government agreements under the urban cooperation act of 1967 (Ex Sess) P.A. 7. MCL 124.50 to 124.512.
- h) Investment Pools organized under the Surplus Funds Investment Pool Act, 1982 P.A. 367, MCL 129.111 to 129.118.

The Village's investments are categorized to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Village or its agent in the Village's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Village's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the Village's name.

VILLAGE OF ORTONVILLE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

4) DEPOSITS AND INVESTMENTS (Continued)

The Village's unclassified investments are deposits in MBIA's Class Michigan Investment Pool. Each governmental unit participating in the Class Michigan Investment Pool owns a pro rata share of the investment or deposit, which is held in the name of the investment pool. The Village's investments in the investment pool are not categorized by risk because the pool has the characteristics of mutual funds, which are not evidenced by securities that exist in physical or book entry form. All unclassified investments are recorded at cost, which approximates fair market value.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured with securities held by the counterparty or by its trust department or agent but not in the Village's name.

At June 30, 2006, the Village's investments consist of the following:

<u>Category 1</u>	<u>MARKET VALUE</u>
Certificate of Deposit, 3.5%, dated June 26, 2006 matures June 26, 2007 – Oxford Bank	\$ 15,000
<u>Category 3 (Unclassified)</u>	
MBIA's Class Michigan Investment Pool	47,115
<u>TOTAL INVESTMENTS</u>	<u>\$ 62,115</u>

At year end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

Cash – District Wide – Governmental Funds	\$ 446,931
Investments – District Wide – Governmental Funds	62,115
<u>TOTAL</u>	<u>\$ 509,046</u>

5) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Land	\$706,540	\$0	\$0	\$706,540
Buildings	922,265	0	0	922,265
Leasehold Improvements	769,834	136,700	0	906,534
Furniture and Equipment	94,670	0	0	94,670
Vehicles	137,000	0	0	137,000
Streets and Storm Sewer Infrastructure	135,078	1,201	0	136,279
Totals at Historical Cost	<u>\$2,765,387</u>	<u>\$137,901</u>	<u>\$0</u>	<u>\$2,903,288</u>
Less: Accumulated Depreciation				
Buildings	(70,947)	(23,649)	0	(94,596)
Leasehold Improvements	(518,335)	(46,904)	0	(565,239)
Furniture and Equipment	(81,642)	(7,234)	0	(88,876)
Vehicles	(106,600)	(19,400)	0	(126,000)
Streets and Storm Sewer Infrastructure	(4,464)	(9,085)	0	(13,549)
Total Accumulated Depreciation	<u>(\$781,988)</u>	<u>(\$106,272)</u>	<u>\$0</u>	<u>(\$888,260)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$1,983,399</u>	<u>\$31,629</u>	<u>\$0</u>	<u>\$2,015,028</u>

VILLAGE OF ORTONVILLE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

5) CAPITAL ASSETS (Continued)

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

	<u>Governmental</u>
General Government	\$ 18,303
Highways, Streets and Bridges	<u>87,969</u>
 <u>TOTAL</u>	 <u>\$ 106,272</u>

6) PROPERTY TAX

The Village levies its property taxes on July 1, and collects its own property taxes until March 1. The delinquent real property taxes of the Village are purchased by the county of Oakland, and delinquent personal property taxes continue to be collected by the Village and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the Village for these property taxes. These taxes have been recorded as revenue for the current year.

7) GENERAL LONG-TERM DEBT

A) CONTRACT PAYABLE

The Village of Ortonville is indebted to Oxford Bank on an installment purchase agreement pursuant to Act 99 for the purchase of general fixed assets as detailed below. The contract required annual payments of \$9,041 including interest at 4.1%, and is secured by general fixed assets. The balance outstanding at June 30, 2006 was \$16,995.

B) REVENUE BONDS PAYABLE

On December 21, 1994, the Village issued the "Village of Ortonville 1994 Downtown Development Improvement Project Tax Increment Revenue Bonds" to finance certain public improvements including streetscape and lighting improvements. The balance outstanding at June 30, 2006 is \$180,000.

Interest paid on long-term debt during the year ended June 30, 2006 was \$14,217.

<u>JUNE 30</u>	<u>Bonds</u>	<u>Contracts</u>	<u>Interest</u>	<u>Total</u>
2007	\$25,000	\$8,333	\$12,385	\$45,718
2008	25,000	8,662	10,350	44,012
2009	30,000	0	8,105	38,105
2010	30,000	0	6,020	36,020
2011	35,000	0	2,485	37,485
2012	<u>35,000</u>	<u>0</u>	<u>2,485</u>	<u>37,485</u>
 <u>TOTAL</u>	 <u>\$180,000</u>	 <u>\$16,995</u>	 <u>\$41,830</u>	 <u>\$238,825</u>

VILLAGE OF ORTONVILLE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

7) GENERAL LONG-TERM DEBT (Continued)

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006	Amount Due in One Year
<u>Governmental Activities:</u>					
Bonds Payable	\$200,000	\$0	\$20,000	\$180,000	\$25,000
Contracts Payable	24,994	0	7,999	16,995	8,333
<u>TOTAL</u>	<u>\$224,994</u>	<u>\$0</u>	<u>\$27,999</u>	<u>\$196,995</u>	<u>\$33,333</u>

8) INTERFUND BALANCES

Interfund balances at June 30, 2006 consisted of the following:

<b>DUE TO</b>	<b>DUE FROM</b>		
	General Fund	Local Street	Total
Downtown Development Authority	\$7,175	\$0	\$7,175
Major Street	31,944	7,822	39,766
Local Street	9,041	0	9,041
<u>TOTAL</u>	<u>\$48,160</u>	<u>\$7,822</u>	<u>\$55,982</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

9) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

<b>TRANSFERS TO</b>	<b>TRANSFERS FROM</b>			
	General	DDA	Major Street	Total
Debt Retirement	\$0	\$33,175	\$0	\$33,175
Major Street	47,789	0	0	47,789
Local Street	0	0	2,000	2,000
<u>TOTAL</u>	<u>\$47,789</u>	<u>\$33,175</u>	<u>\$2,000</u>	<u>\$82,964</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due.

VILLAGE OF ORTONVILLE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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10) RETIREMENT PLAN

A) Deferred Compensation Plan

The Village offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all permanent Village employees, permits them to defer until future years up to 33 1/3% of annual gross earnings not to exceed \$7,500.00. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or beneficiary) solely the property and rights of the Village (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Village's general creditors. Participants' rights under the plan are equal to those of general creditors of the Village in an amount equal to the fair market value of the deferred account for each participant. Investments held by the deferred compensation fund are recorded at market value.

It is the opinion of Village management that the Village has no liability for losses under the plan but does have duty of due care that would be required of an ordinary prudent investor.

A summary of plan activity for the year ended June 30, 2006 is as follows:

Balance at July 1, 2005	\$ 52,217
Contributions	6,648
Earnings from Investments	3,330
Net Transfers	0
Withdrawals	<u>(10,244)</u>
 <u>BALANCE AT JUNE 30, 2006</u>	 <u>\$ 51,951</u>

To encourage employees to invest in their own future, the Village will assist those employees who are 60% vested (3 years) by adding 1% of the employee's yearly wage to an employee directed deferred compensation plan as long as the employee contributes at least 2% of their yearly salary to the same fund. As of June 30, 2004 this plan was terminated.

The Village's total payroll in year ended June 30, 2006 was \$216,614. The Village's contributions were calculated using the base full-time salary amount of \$204,954. The employees contributed \$0.

B) Defined Contribution Plan

The Village of Ortonville Money Purchase Pension Trust hereafter referred to as the "plan" is administered through Lincoln Financial Group. The Village provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate 90 days from the date of employment. The employee's manual, as approved by Village Council, requires that the Village contribute an amount equal to 5% of the employee's base salary each month. The Village's contributions for each employee (and interest allocated to the employee's account) is fully vested after meeting the required number of years of continuous service. Village contributions for, and interest forfeited by, employees who leave employment before the required vesting period, five years, are used to reduce the Village's current period contribution requirement.

The Village made the required 5% contribution, amounting to \$6,648 for the year ended June 30, 2006.

It is the opinion of Village management that the Village has no liability for losses under the plan but does have duty of due care that would be required of an ordinary prudent investor.

VILLAGE OF ORTONVILLE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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11) FUND BALANCE RESERVATIONS

The fund balance reserved on the balance sheet relates to the corpus of the Cowles library CD. The corpus is \$15,000 and is an unexpendable asset per the terms of the donation.

12) RISK MANAGEMENT

The Village is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The Village limits its exposure to such claims through its participation in and payments of premiums for insurance coverages. The Village management believes that this provides sufficient coverage to protect the Village from any significant adverse financial impact.

OTHER SUPPLEMENTARY  
INFORMATION

VILLAGE OF ORTONVILLE  
COMBINING BALANCE SHEETS  
OTHER GOVERNMENT FUNDS  
AS OF JUNE 30, 2006

	Local Street	Debt Retirement	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$51,662	\$0	\$51,662
Due from Other Funds	7,822	0	7,822
<u>TOTAL ASSETS</u>	<u>\$59,484</u>	<u>\$0</u>	<u>\$59,484</u>
<u>LIABILITIES</u>			
Due to Other Funds	\$9,041	\$0	\$9,041
<u>FUND EQUITY</u>			
Reserved - Debt Retirement	50,443	0	50,443
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$59,484</u>	<u>\$0</u>	<u>\$59,484</u>

VILLAGE OF ORTONVILLE  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
OTHER GOVERNMENT FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	Local Street	Debt Retirement	Total
<u>REVENUES</u>			
State Sources	\$24,421	\$0	\$24,421
Other Sources	3,002	0	3,002
Total Revenues	\$27,423	\$0	\$27,423
<u>OTHER FINANCING SOURCES</u>			
Transfer from Other Funds	2,000	33,175	35,175
Total Revenues and Other Financing Sources	\$29,423	\$33,175	\$62,598
<u>EXPENDITURES</u>			
Highways, Streets and Bridges	28,149	0	28,149
Principal Paid	0	20,000	20,000
Interest	0	13,175	13,175
Total Expenditures	\$28,149	\$33,175	\$61,324
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES</u>	\$1,274	\$0	\$1,274
<u>FUND BALANCE - BEGINNING OF YEAR</u>	\$49,169	\$0	\$49,169
<u>FUND BALANCE - END OF YEAR</u>	\$50,443	\$0	\$50,443

VILLAGE OF ORTONVILLE  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED JUNE 30, 2006

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TAX COLLECTIONS

Current Property Taxes	\$308,856
Delinquent Property Taxes	928
Total Tax Collections	<u>\$309,784</u>

LICENSES AND PERMITS

Building Department	5,400
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STATE SOURCES

Liquor Control	965
Sales and Use Tax	117,609
Total State Sources	<u>\$118,574</u>

OTHER SOURCES

Interest Earned	9,463
Reimbursements from Fire Board, Police Board and Township	27,062
Miscellaneous Revenue	13,021
Total Other Sources	<u>\$49,546</u>

TOTAL REVENUES

\$483,304

VILLAGE OF ORTONVILLE  
GENERAL FUND  
SCHEDULE OF EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006

LEGISLATIVEVillage Council

Audit Fees	\$9,350
Downtown Development	3,345
Dues	1,865
Education	521
Miscellaneous	573
Printing and Duplicating	650
Salaries and Wages	8,670
Total Legislative	<u>\$24,974</u>

EXECUTIVEVillage President

Miscellaneous	132
Education	85
Salaries and Wages	2,820
Total Executive	<u>\$3,037</u>

MANAGERVillage Manager

Dues	250
Education	577
Insurance	9,703
Mileage	270
Office Supplies	4,398
Postage	236
Retirement	1,609
Salaries and Wages	35,317
Total Manager	<u>\$52,360</u>

FINANCIAL ADMINISTRATIONAttorney

Professional Services	15,714
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Village Clerk

Miscellaneous	(10)
Education	100
Salaries and Wages	15,874
Total Village Clerk	<u>\$15,964</u>

Village Treasurer

Dues	85
Education	40
Insurance	7,629
Mileage	148
Miscellaneous	70
Printing	453
Retirement	1,842
Salaries and Wages	38,842
Total Village Treasurer	<u>\$49,109</u>

Total Financial Administration	\$80,787
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VILLAGE OF ORTONVILLE  
GENERAL FUND  
SCHEDULE OF EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006

GENERAL GOVERNMENT

Village Hall and Grounds

Building Maintenance Supplies	\$1,633
Electricity	1,499
Total Village Hall and Grounds	<u>\$3,132</u>

Village Rental Property

Building Maintenance	1,296
Computer Maintenance	1,200
Electricity	2,629
Fuel Oil	2,647
Janitor Wages	1,236
Miscellaneous	318
Operating Supplies	758
Telephone	2,166
Trash Removal	826
Total Village Rental Property	<u>\$13,076</u>

<u>Election</u>	584
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Department of Public Works

Building Maintenance Supplies	4,436
Deferred Comp	1
Electricity	(2,342)
Equipment and Fixtures	728
Equipment Maintenance	16,111
Fuel Oil	5,182
Gas and Oil	3,148
Insurance	25,655
Miscellaneous	3,113
Retirement	4,506
Salaries and Wages	89,953
Telephone	2,495
Total Department of Public Works	<u>\$152,986</u>

Miscellaneous

Recreation Commission	<u>1,735</u>
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Total General Government	\$171,513
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PROTECTIVE INSPECTION

Inspectors

Salaries and Wages	3,710
Miscellaneous	315
Total Inspectors	<u>\$4,025</u>

HIGHWAYS, STREETS AND BRIDGES

24,942

VILLAGE OF ORTONVILLE  
GENERAL FUND  
SCHEDULE OF EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006

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RECREATION

Parks and Recreation

Miscellaneous	\$162
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PLANNING COMMISSION

Meeting	350
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Education	275
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Miscellaneous	235
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Total Planning Commission	<u>\$860</u>
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OTHER FUNCTIONS

Insurance

Insurance Expenditures	18,207
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Payroll Tax and Retirement

Payroll Taxes	19,249
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Total Other Functions	<u>\$37,456</u>
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Total Expenditures	<u>\$400,116</u>
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OTHER FINANCING USES

Transfers to Other Governmental Units	412
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Transfers to Other Funds	47,789
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Total Other Financing Uses	<u>\$48,201</u>
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TOTAL EXPENDITURES AND OTHER FINANCING USES

<u>\$448,317</u>
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VILLAGE OF ORTONVILLE  
SPECIAL REVENUE FUNDS  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

	MAJOR FUNDS				Total
	Downtown	HIGHWAY FUNDS		Total	Total
	Development	Major	Local	Highway	Special
	Authority	Street	Street	Funds	Revenue
					Funds
<u>GENERAL GOVERNMENT</u>					
<u>Downtown Development Authority</u>					
Farmers Market	\$1,717	\$0	\$0	\$0	\$1,717
Miscellaneous	3,449	0	0	0	3,449
Office Expense	8,822	0	0	0	8,822
Salaries and Wages	22,630	0	0	0	22,630
Streetscape	6,930	0	0	0	6,930
Village Square	186	0	0	0	186
Total General Government	\$43,734	\$0	\$0	\$0	\$43,734
<u>HIGHWAYS, STREETS AND BRIDGES</u>					
<u>Construction</u>	0	23,126	1,067	24,193	24,193
<u>Routine Maintenance</u>					
Operating Supplies	0	1,014	1,460	2,474	2,474
Repairs and Maintenance	0	2,841	2,394	5,235	5,235
Total Routine Maintenance	\$0	\$3,855	\$3,854	\$7,709	\$7,709
<u>Snow and Ice Control</u>					
Equipment	0	0	9,064	9,064	9,064
Salaries and Wages	0	10,500	8,200	18,700	18,700
Supplies	0	5,716	5,964	11,680	11,680
Total Snow and Ice Control	\$0	\$16,216	\$23,228	\$39,444	\$39,444
Total Highways, Streets and Bridges	\$0	\$43,197	\$28,149	\$71,346	\$71,346
<u>TOTAL EXPENDITURES</u>	\$43,734	\$43,197	\$28,149	\$71,346	\$115,080
<u>OTHER FINANCING USES</u>	33,175	2,000	0	2,000	35,175
<u>TOTAL EXPENDITURES AND OTHER FINANCING USES</u>	\$76,909	\$45,197	\$28,149	\$73,346	\$150,255

VILLAGE OF ORTONVILLE  
TAX INCREMENT REVENUE BONDS  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
AS OF JUNE 30, 2006

Revenue Bonds issued November 21, 1994, and outstanding as of June 30, 2006 consisted of:

DATE OF MATURITY	PRINCIPAL REQUIREMENT	RATE	INTEREST REQUIREMENT	TOTAL DEBT REQUIREMENT
November 1, 2006	\$25,000	6.70%	\$6,257	\$31,257
May 1, 2007	0	6.70%	5,420	5,420
November 1, 2007	25,000	6.80%	5,420	30,420
May 1, 2008	0	6.80%	4,570	4,570
November 1, 2008	30,000	6.90%	4,570	34,570
May 1, 2009	0	6.90%	3,535	3,535
November 1, 2009	30,000	7.00%	3,535	33,535
May 1, 2010	0	7.00%	2,485	2,485
November 1, 2010	35,000	7.10%	2,485	37,485
May 1, 2011	0	7.10%	1,242	1,242
November 1, 2011	35,000	7.10%	1,243	36,243
<u>TOTALS</u>	<u>\$180,000</u>		<u>\$40,762</u>	<u>\$220,762</u>



*Lewis & Knopf, CPA's, P.C.*

Serving You with Trust and Integrity

October 19, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Village Council  
Village of Ortonville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2006, which collectively comprise the Village of Ortonville's basic financial statements and have issued our report thereon dated October 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Ortonville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Ortonville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the finance committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lewis & Knopf P.C.*  
LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



# *Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

October 19, 2006

To the Village Council and Village Manager  
of the Village of Ortonville

In planning and performing our audit of the financial statements of the Village of Ortonville for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Village of Ortonville's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Listed below are the reportable conditions and items of comment and recommendation, none of which is a material weakness:

## CURRENT YEAR FINDINGS

### 1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, Village of Ortonville incurred expenditures in certain funds, which were in excess of the amounts appropriated.

### 2. Bank Reconciliations

The general ledger cash accounts were not reconciled to the Village's bank accounts for a couple cash accounts during the fiscal year ending June 30, 2006. Proper bank reconciliations are a key to maintaining adequate control over both cash receipts and disbursements. If bank reconciliations are to serve as an effective control over the cash accounts, they must be prepared on a timely basis and all reconciling items should be investigated and disposed of properly. We strongly recommend the use of an electronic bank reconciliation format.

### 3. Tax Entries

Tax entries should be posted directly to revenue. Prior posting included redundant effort and unnecessary accounts.

### 4. Payroll

Payroll records must be reconciled quarterly. We suggest this process to ensure that proper accounting and reporting is maintained in this area.

### 5. Reconcile Subsidiary Ledgers

Accounts Payable should be reconciled to ensure that the subsidiary ledger supports the general ledger. Traditionally, the accounts payable module is only used to generate payments, therefore the account balance should be at zero or the beginning accrual. All variance should be investigated and resolved timely.



Village of Ortonville

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October 19, 2006

6. Interfund Activity

A process should be maintained to make timely payments of interfund due to and from. Transfers should be reconciled quarterly. Due to and due froms should be reconciled quarterly.

7. DDA

The DDA activity needs to be recorded in the general ledger as individual transaction. Prior accounting was in batch form and that made documentation difficult to trace.

8. Journal Entries

We recommend the journal entry process be more formalized to include documentation of preparer and approval as well as hard storage with support documentation.

FUTURE ISSUES

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Village of Ortonville, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The Village may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- \* Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- \* Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- \* Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



Village of Ortonville  
Page 3  
October 19, 2006

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of the Village Council and management of the Village of Ortonville. However, this report is a matter of public record and its distribution is not limited.

*Lewis & Knopf P.C.*  
LEWIS & KNOFF, P.C.  
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